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TECHNICAL BULLETIN

Other Postemployment Benefits (OPEB) and Cash Basis Financial Statements

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, will become effective for the largest governments for the year ending June 30, 2008. It will be phased in for smaller governments over the following two years. One of the common circumstances which could be covered by GASB Statement No. 45 is continued participation by former employees in a government's health and/or life insurance programs following termination of employment.

In order to present financial statements in accordance with U.S. generally accepted accounting principles, GASB Statement No. 45 requires actuarial valuations be performed to determine the financial effects of the postemployment benefits provided. Because GASB Statement No. 45 does not address requirements when reporting in accordance with an other comprehensive basis of accounting, typically the cash basis of accounting, we are issuing this **Technical Bulletin** to provide advance guidance on what we believe governments which issue cash basis financial statements will be required to do in order to comply with GASB Statement No. 45.

Statement on Auditing Standards (SAS) 62 requires cash basis financial statements to include the same or similar information as reports prepared in conformity with U.S. generally accepted accounting principles (GAAP). Interpretation 14 of SAS 62 (AU Section 9623.90-.95) pertains to Evaluating the Adequacy of Disclosure and Presentation in Financial Statements Prepared in Conformity With an Other Comprehensive Basis of Accounting (OCBOA). According to Interpretation 14, financial statements should provide relevant disclosures required for those items in a GAAP presentation or provide information which communicates the substance of the required disclosures. As a result, it is appropriate to substitute qualitative information for some of the quantitative information required for GAAP presentations.

Based on SAS 62 and Interpretation 14, we have determined governments reporting on a cash basis may, but are not required to, obtain actuarial valuations to determine the actuarial liability resulting from other postemployment benefits provided by the government. However, at a minimum, the government's audit report should include note disclosures of the plan description, participation and any legal or contractual contribution requirements. These disclosures are required even if the government's plan consists only of an implicit rate subsidy, as defined below.

GASB defines implicit rate subsidy as "the de facto subsidy of retirees by permitting them to pay lower than age-adjusted premiums through the use of a single common or blended premium for both retirees and active employees." In simpler terms, premiums for retirees normally would be higher than premiums for active employees because of the higher age of the retired employees. When governments negotiate a single premium rate for active and retired employees, the government is subsidizing the premium rate which would otherwise be charged retired employees through higher premium rates for active employees than would otherwise be required for the active employees only. The additional cost of including the retired employees results in an implicit rate subsidy.

The Office of Auditor of State will provide detailed sample note disclosures in the fiscal 2008 sample reports issued by the Office.

For questions and/or clarification, please contact:

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